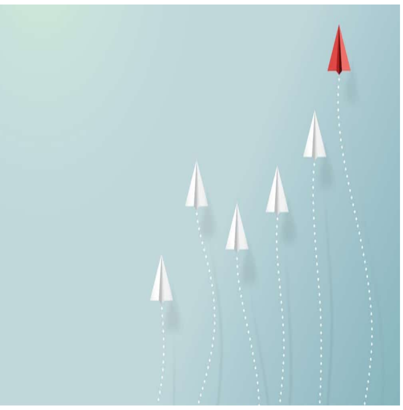

Could Air Canada's (TSX:AC) Upcoming Earnings Push the Stock to $30?

Description

Just when you thought **Air Canada** (TSX:AC) stock had started on another rally, the stock fell 2%. This hesitation among investors and traders is probably a decline before the first-quarter earnings release on May 7. Can AC earnings instill confidence in investors and lead the stock past $30, as it did in February after the 2020 earnings? To find the answer, you need to know the highlights that everyone will look for in the upcoming earnings.

Three things to look for in Air Canada's first-quarter earnings

While there are many things to look for in earnings, three things will set the course for AC stock's next move. In the current scenario, the most pressing issue for any airline is liquidity and cash burn. The next is operating capacity, and the last one is net debt and capital expenditures. The government bailout aims to address all three issues by offering low-cost, long-term loans. And that is what you should look for in the upcoming earnings.

Liquidity and cash burn

While the revenue is not in Air Canada's control, the cost is. The airline has reduced its operating expense by 37% to slow its cash burn. But it expected a $15-$17 million daily cash burn in the first quarter, because of higher capital expenditure. This means the airline could report a $1.4 billion net loss, which could reduce its liquidity to $7 billion in the first quarter.

With the bailout here, all eyes are on AC's estimates for the future cash burn. Before the bailout, I'd expected a higher cash burn in the coming quarters, as short-term debts mature. But with the bailout, there could be some slowdown in cash burn.

Air Canada's operating capacity

The next important thing to look for in Air Canada's earning is its operating capacity. Last year, the airline operated at 20% capacity from the 2019 level. In the first quarter, it expected to operate at 15% capacity from the 2019 level, as the second wave of the pandemic saw new travel bans to sunny destinations until April 30. But in the light of the third wave, the government has extended the travel ban on sunny destinations to May's end. It has also imposed new travel bans on some Asian countries, such as India and Pakistan.

All this could keep AC's operating capacity at 15-20% in the second quarter as well. The capacity will have a direct impact on its revenue.

Net debt and capital expenditures

The final thing that could set the tone for AC's stock is the rising net debt. At the end of 2020, its net debt was $5 billion. The $5.9 billion bailout will add to AC's net debt as $5.4 billion of that amount is in the form of low-interest, long-term debt.

Around $3.9 billion is in unsecured loans, and Fitch Ratings assumes there is a risk of no recovery for AC's unsecured loans. That is why many organizations and unions are asking the government to impose stricter bailout terms. But the government has a Plan B for around $2.5 billion unsecured loans. The more in loans AC withdraws means the government will get proportional equity warrants. With these warrants, the government can get up to a 10% equity stake in AC.

Hence, look out for AC CEO Michael Rousseau's plan on using the bailout. How much money will AC withdraw, and how does it plan to use the bailout money?

Final thoughts

AC stock is currently under selling pressure because of the bailout term. If the CEO addresses investors' concerns around the equity dilution and explain how the bailout will benefit the airlines, the stock could surge past $30.

Air Canada stock surged 40% after its previous earnings. In that earnings, AC raised investors hopes around a bailout and hinted at the end of the **Transat A.T.** acquisition. Keep a close watch on AC on May 7, as the earnings could see another rally or a significant dip in the stock.

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